

Industrial Development Board of the County of Hickman

Financial Statements

For the Period Ended June 30, 2010

**Industrial Development Board of the County of Hickman
Financial Statements
As Of June 30, 2010**

TABLE OF CONTENTS

Introductory Section

Schedule of Board Officials	1
Management Discussion & Analysis	2

Financial Section

Independent Auditor's Report	4
Financial Statements: Governmental Fund Balance Sheet/Statement of Net Assets	6
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities	7
Notes to Financial Statements	8

Internal Control and Compliance Section

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards	14
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Introductory Section

**Industrial Development Board of the County of Hickman
Schedule of Board Officials
As Of June 30, 2010**

Thomas A. Isbell	President
Thomas B. Clifton	Vice-President
Howard Talley	Secretary
Howard T. Breece	Treasurer
Kenneth Canady	
Tony Lee Collins	
Joseph W. Finney, Jr.	
Chad Hanes	
Wayne E. Richey	
Mike Tanner	

**Industrial Development Board of the County of Hickman
Management Discussion and Analysis
As Of June 30, 2010**

As management of the Industrial Development Board of the County of Hickman (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the six month period ended June 30, 2010.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the Board's basic financial statements. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Government-wide Financial Statements) provide information about financial activities as a whole and illustrate the longer-term view of the Board's finances. The Governmental Fund Balance Sheet and Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance (Fund Financial Statement) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the operations in more detail than the Government-wide financial statements by providing information about the most significant funds. Our auditors have provided assurance in their independent auditor's report that the Basic Financial Statements are fairly stated. The auditors regarding the Required Supplementary Information are providing varying degrees of assurance. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Fund Financial Statements.

Financial Analysis of the Government's Funds

The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the governmental funds is to provide information on inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending as of the end of the fiscal year.

During the six month period ended June 30, 2010, the Board had total revenue of \$14,866, none of which were contributions from Hickman County, Tennessee. The entity also had total monetary expenditures in the amount of \$30,109.

Debt Administration

At June 30, 2010, the Board had \$361,942 in liabilities, all of which was long-term debt. The long-term debt is down \$14,624 from \$376,566 at December 31, 2009.

**Industrial Development Board of the County of Hickman
Management Discussion and Analysis
As Of June 30, 2010**

Property Held for Sale or Lease

Under generally accepted accounting principles (GAAP), there are three (3) properties held available for sale as of June 30, 2010. These properties are listed below:

<u>Address</u>	<u>Acres</u>	<u>Appraised Value</u>
Highway 7	14.05 acres available	\$63,200.00
Rivers Road	48.30 acres available	\$80,500.00
Rivers Road	8.70 acres available	\$43,500.00

There is one additional parcel of land that is deeded in the name of the Board. It is properly not recorded on the financial statements in accordance with GAAP as a direct-financing lease.

Economic Factors and Future Periods

The Board's overall intent is to identify new land available for purchase, which will help to attract new industries to Hickman County.

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the reports or requests or additional financial information should be addressed to the:

Industrial Development Board of the County of Hickman
P.O. Box 888
Lyles, TN 37098

Financial Section

LARRY HYATT & ASSOCIATES, P.L.L.C.

Certified Public Accountants

Specializing in State and Local Taxes

Gardner Building

5214 Maryland Way – Suite 307

Brentwood, Tennessee 37027

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Industrial Development Board of the County of Hickman

We have audited the accompanying financial statements of the governmental activities and the major fund of the Industrial Development Board of the County of Hickman (the Board), a component unit of Hickman County, Tennessee, as of and for the six month period ended June 30, 2010, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, except for the circumstance described in Note 13, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Industrial Development Board of the County of Hickman, as of June 30, 2010, and the respective changes in financial position thereof for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of

the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lamy Hight + Associates, PLLC

January 13, 2012

Industrial Development Board of the County of Hickman
Governmental Fund Balance Sheet/Statement of Net Assets
As Of June 30, 2010

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash	\$ 543,314	\$ -	\$ 543,314
Certificates of Deposit	\$ 161,795	\$ -	\$ 161,795
Lease receivable	\$ 361,942	\$ -	\$ 361,942
Property held for sale (Cost)	\$ 50,538	\$ -	\$ 50,538
	<u>\$ 1,117,589</u>	<u>\$ -</u>	<u>\$ 1,117,589</u>
Total Assets			
Liabilities:			
Accounts Payable	\$ -	\$ -	\$ -
Due to Hickman County	\$ -	\$ -	\$ -
Noncurrent liabilities:			
Note Payable - Due within one year	\$ -	\$ 36,343	\$ 36,343
Note Payable - Due in more than one year	\$ -	\$ 325,599	\$ 325,599
Total Liabilities	<u>\$ -</u>	<u>\$ 361,942</u>	<u>\$ 361,942</u>
Fund Balances/Net Assets			
Fund balances:			
Reserved for:			
Property held for sale	\$ 50,538		
Unreserved	<u>\$ 1,067,051</u>		
Total Fund Balances	<u>\$ 1,117,589</u>		
Total Liabilities and Fund Balances	<u>\$ 1,117,589</u>	*	
Net Assets:			
Unrestricted (Ending Balance from Prior Period)			<u>\$ 755,647</u>
Total Net Assets			<u>\$ 755,647</u>
Total Liabilities and Net Assets			<u>\$ 1,117,589</u>

* Note: Adjustments have been made to the beginning period Fund Balance and Net Assets. Please see Note 12 for a detailed explanation.

See accompanying notes to financial statements.

Industrial Development Board of the County of Hickman
Statement of Governmental Fund Revenues, Expenditures
and Changes in Fund Balances / Statement of Activities
For the Six Months Ended June 30, 2010

	Governmental Fund	Adjustments	Statement of Activities
Other Financing Sources			
Direct Financing Lease Income	\$ 8,458	\$ -	\$ 8,458
PILOT Income	\$ 4,727	\$ -	\$ 4,727
Interest Income	\$ 1,681	\$ -	\$ 1,681
	<hr/>		<hr/>
Total Income	\$ 14,866	\$ -	\$ 14,866
	<hr/>		
Expenditures/Expenses:			
Current:			
Advertising	\$ 22	\$ -	\$ 22
Legal	\$ 21,405	\$ -	\$ 21,405
Meals & Entertainment	\$ 224	\$ -	\$ 224
Debt Service:			
Principal	\$ 14,624	\$ (14,624)	\$ -
Interest	\$ 8,458	\$ -	\$ 8,458
Total Expenditures/Expenses	\$ 44,733	\$ (14,624)	\$ 30,109
	<hr/>		<hr/>
Excess of expenditures over revenues revenues/change in net assets	\$ (29,867)	\$ 14,624	\$ (15,243)
Fund Balance/Net Assets:			
Beginning of period	\$ 1,147,456 *	\$ -	\$ 770,890 *
	<hr/>		<hr/>
End of period	\$ 1,117,589	\$ -	\$ 755,647
	<hr/>		<hr/>

* Note: Adjustments have been made to the beginning period Fund Balance and Net Assets. Please see Note 12 for a detailed explanation.

See accompanying notes to financial statements.

Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 1 – Summary of significant accounting policies

The Industrial Development Board of the County of Hickman (the Board) is a nonprofit corporate agency and instrumentality of Hickman County, Tennessee, organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The Board was incorporated in 1962. The purpose of the Board is to promote the industrial development of, and provide additional job opportunities in, Hickman County, Tennessee.

The Board is a component unit of Hickman County, Tennessee, which is the principal reporting entity and the primary government. The County is responsible for appointing all of the Board's directors and provides its primary funding support.

The Board applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements, unless those pronouncements or opinions conflict with or contradict GASB pronouncements. The Board is treated as a discrete component unit of Hickman County since Hickman County may unilaterally control the operations of the Board.

Government-Wide Statements

In the government-wide Statement of Net Assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The government-wide Statement of Activities reports both gross and the net cost of the Board's programs. The Statement of Activities reduces gross expenses by related program revenues. Program revenues must be directly associated with the function.

The Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34 – "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds. The Board has no capital assets at June 30, 2010.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through

Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 1 – Summary of significant accounting policies (Continued)

constitutional provisions or enabling legislation. The Board has no restricted net assets as of June 30, 2010.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available). Available means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

The financial transactions of the Board are reported in individual funds in the fund financial statement. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures. The Board reports the following funds:

General Fund – This fund is used as the general operating fund of the Board, which is used to account for all financial resources of the Board.

Property Held for Sale or Lease

Property held for sale or lease is recorded at cost, when available. All donated property is recorded at the estimated fair market value of the land on the date of donation. The cost of property sold is charged to expense using the specific identification method.

Investments

Investments and other deposits are restricted by State law to deposits with financial institutions and certain obligations guaranteed by the United States Government. Investments consist of certificates of deposit in local banks with stated interest rates and are recorded at fair market value.

Federal and State Income Taxes

The Board is exempt from federal and state income tax.

Concentration of Credit Risk

At June 30, 2010, and at various times throughout the year, the Company had cash balances at a bank in excess of \$250,000, all of which is insured by the FDIC or the State of Tennessee Collateral Pool.

Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 2 – Certificates of Deposit

At June 30, 2010, certificates of deposit consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Certificate of Deposit	2.00%	December 1, 2010	\$37,017
Certificate of Deposit	1.40%	December 8, 2010	60,000
Certificate of Deposit	2.00%	October 19, 2010	27,928
Certificate of Deposit	1.50%	October 19, 2010	<u>36,850</u>
			\$161,795

Note 3 – Lease Receivable

On August 1, 2000, the Board entered into a property financing lease contract with Sole Supports, Inc. (Sole Supports). The lease began September 1, 2000, and originally ended on August 31, 2015. A first amendment to the aforementioned lease was signed on September 9, 2003, which extends the lease period to August 31, 2018. Based on the terms of the lease, a note was obtained from a lender, the proceeds of which were given to Sole Supports for construction of a building. The building has been completed in agreement with the terms of the lease. Sole Supports makes monthly payments on the note for \$4,617 directly to the lender. The Board records both a net lease receivable from Sole Supports and a note payable due to the lender. Also, the Board records interest income earned from Sole Supports along with interest expense attributable to the debt incurred from the project.

Note 4 – Property Held for Sale or Lease

The Board owns approximately 71 acres of land in Hickman County, Tennessee, as of June 30, 2010.

<u>Address</u>	<u>Acres</u>	<u>Cost</u>
Highway 7	14.05 acres available	\$48,400
Rivers Road	48.30 acres available	1,812
Rivers Road	8.70 acres available	<u>326</u>
		\$50,538

There is one additional parcel of land that is deeded in the name of the Board. It is properly not recorded on the financial statements in accordance with GAAP as a direct-financing lease. A direct-financing lease is a lease where collectability of minimum lease payments is assured and no important uncertainties surround the amount of unreimbursable costs yet to be incurred. In a direct-financing lease the lessor purchases the property only for the purpose of leasing it.

Note 5 – Long-term Debt

The Board's current long-term includes a note payable to First Farmers and Merchants Bank, payable in monthly installments of \$4,617. This payment includes interest at 5.75% through September 2018. The note is secured by a deed of trust for property in Hickman County, Tennessee.

Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 6 – Payments in Lieu of Taxes (PILOT Program)

Hickman County has delegated to the Board the authority to negotiate and accept from the Board's lessee's payments in lieu of ad valorem taxes (PILOT). This can only be done if the payments in lieu of ad valorem taxes further the Board's public purpose and if the agreement entered into by the Board does not exceed 20 years from the date of the contract. Hickman County may require the Board to submit any agreements to the County for approval.

Lessees are required to file a property report by October 1st each year to the State Board of Equalization. A copy of this report is to be filed with the local property assessor's office by October 15th each year.

Also, any payment in lieu of taxes (up to the amount of actual ad valorem taxes that would be due) shall become a first lien upon the leased property from January 1 of the year in which such payment in lieu of taxes on lease payments is due.

Note 7 – Commitments and Contingencies

The Board has received parcels of land from Hickman County, Tennessee, since its inception. A reduction of support in this manner could have a significant effect on the future operations of the Board.

Note 8 – Budget

The Board's bylaws do not require an annual budget. No budget was prepared for the six month period ended June 30, 2010, and therefore, no budgetary comparisons are presented.

Note 9 – Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of net Assets:

The Statement of Net Assets includes the debt related to the capital assets among the liabilities Of the Board, while the governmental Fund Balance Sheet does not.

Current portion of notes payable	\$ 36,343
Long-term portion of notes payable	<u>325,599</u>
	\$ <u>361,942</u>

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Governmental funds record borrowings as revenue and the principal portion of debt repayment as an expense, while the Statement of Net Assets records borrowings as a liability and the Statement of Activities records the interest portion of payments as an expense.

Debt service principal	\$ <u>14,624</u>
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Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 10 – Exposure

The Board is included under the County coverage for the risks of losses to which it is exposed. These risks include general liability and property and casualty. There are currently no claims against existing insurance policies.

Note 11 – Subsequent Events

The Board has evaluated events subsequent to the six month period ending June 30, 2010. As of the date of this report, January 13, 2012, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the period ended June 30, 2010.

Note 12 – Prior Period Adjustment

The beginning balances for the period ended June 30, 2010, require restatement. Property and liabilities have been adjusted by the amounts below. The adjustment to land resulted from parcels of land that were previously considered to be owned by the IDB, but were later discovered to be misclassified by the Property Assessor's Office. The adjustment to liabilities resulted from payables which were self-calculated and accrued by the former IDB Board and were not substantiated by an invoice. These adjustments were necessary to properly reflect the balances of the governmental fund at the beginning of the audit period.

Government Fund Beginning Balance per previous audit	1,567,505
Decrease to Land	(667,450)
Decrease to Liabilities	<u>247,401</u>
Corrected Beginning Balance	1,147,456
Net Assets Beginning Balance per previous audit	1,190,939
Decrease to Land	(667,450)
Decrease to Liabilities	<u>247,401</u>
Corrected Beginning Balance	770,890

Note 13 – Former Industrial Development Board

On November 16, 2009, the Hickman County Commission met in a special session and voted to remove from office all ten (10) directors of the Industrial Development Board of the County of Hickman for nonfeasance. This action was the result of an ongoing dispute between the County commission and the Board. Despite having been removed from office, the former directors continued to operate without the legal authority to do so. This included holding meetings, deciding issues and disbursing funds from the Board's checking and savings account.

On February 3, 2010 the County Commission filed suit in Chancery court seeking to enforce the removal of the Board.

Industrial Development Board of the County of Hickman
Notes to Financial Statements
As Of June 30, 2010

Note 13 – Former Industrial Development Board (Continued)

On June 7, 2010, the Hickman County Legislature met for a regular meeting and voted in nine (9) new directors of the Industrial Development Board of the County of Hickman. A short time later a tenth director was elected. These ten (10) members compose the current board, which are listed on the Schedule of Board Officials on page 1.

Note 14 – Six Month Period

This audit covers the period of January 1, 2010 through June 30, 2010. This short period audit was necessary because the Industrial Development Board of the County of Hickman operates on a fiscal year ending June 30th, but the previous audit was completed on a calendar-year basis ending on December 31, 2009.

Internal Control and Compliance Section

LARRY HYATT & ASSOCIATES, P.L.L.C.

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**Report on Internal Controls over Financial Reporting and
On Compliance and Other Matters Based on
An Audit of Financial Statements Performed
In Accordance with Government Auditing Standards**

January 13, 2012
To the Board of Directors
Industrial Development Board of the County of Hickman

We have audited the financial statements of the governmental activities and major fund of the Industrial Development Board of the County of Hickman (the Board), a component unit of Hickman County, Tennessee, as of and for the six months ended June 30, 2010, and have issued our report thereon dated January 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2010-1 to be a material weakness.

2010-1 Financial statement preparation

Criteria: Under standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the function was performed by the auditor as an accommodation to management.

Condition: The current Industrial Development Board of the County of Hickman provided financial information to us in the form of bank statements and transaction detail. This was a result of the former Board being fired by the County during the audit period and a new board being appointed to their positions shortly before year-end. We used the financial information provided, proposed adjustments and drafted the financial statements.

Questioned Costs: No cost is associated with this condition.

Perspective Information: While management did not prepare the financial statements they do have sufficient financial knowledge to understand the financial statements and have accepted responsibility for them.

Effect: Financial statements are not regularly prepared by management.

Recommendation:
We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management's Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare complete financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Larry Hyatt & Associates, PLLC